

**BOARD OF INVESTMENT TRUSTEES
MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS**

MINUTES – OPEN SESSION

June 3, 2005

11 North Washington Street, Suite 250
Rockville, Maryland

Board Members Present: Stephen Farber, Chair
Gino Renne
Sandra Kaiser
Mark Barnard
Tim Firestine
Beverley Swaim-Staley
Sharon Cayelli

Staff: Linda Herman
Daniel Weiss
Joanne Tsai

Others Present: Mark Brubaker, Wilshire Associates
Amy Moskowitz, General Counsel to the Board

CALL TO ORDER

Mr. Farber called the open session of the Board to order at 8:40 a.m.

ADMINISTRATIVE COMMITTEE REPORT

Mr. Firestine presented to the Board the report of Administrative Committee activities.

Quarterly Review - Budget versus Actual Expenses – 3/31/05: Mr. Firestine reviewed the budget versus actual expenses for the plans as of March 31, 2005. Mr. Firestine noted the projected costs associated for the move and renovation of the EOB office space. The Board approved the following resolution:

0506-01 Resolved, That the Board approves the transfer of \$10,000 from salaries to office management in the ERS' FY05 budget for costs related to moving and renovation of the Board's office space in the EOB.

Due Diligence/Continuing Education Quarterly Report – 3/31/05: Mr. Firestine presented the quarterly update of the due diligence and continuing education expenses as of March 31, 2005, noting that four requests for travel had been approved by the Administrative Committee.

Risk Management Program - Annual Review: Mr. Firestine discussed the overview of the Board's Risk Management Program, updates on expansion of the Program since adoption, future enhancements and recommended changes to the Risk Management Statement and Program. The Board approved the following resolution:

0506-02 Resolved, That the Board approves the changes to the Risk Management Statement and Program as outlined in the material presented.

Greenwich Associates – Annual Review: Ms. Herman highlighted the review of the 2004 pension fund investment trend data reported by Greenwich Associates including asset allocation, expenses, and staffing levels. Compared to the asset allocation of plans with comparable plan size, the ERS has a larger allocation to domestic stocks and fixed income and a lower allocation to alternatives and real estate. The total ERS investment management fees were lower than the average plan total reported by Greenwich Associates. The Board requested staff update the information to include all ERS expenses.

Outside Legal Counsel: Mr. Firestine recommended the Board table discussion of the use of outside legal counsel until additional information could be gathered. The Board agreed.

The Board approved a motion to move into closed session at 9:10 a.m. After completion of the closed session business, the Board resumed the review of the remaining items in open session.

APPROVAL OF MINUTES

The Board unanimously approved the minutes of the March 4, 2005 open session, as amended.

FUND PERFORMANCE REVIEW AND INVESTMENT OUTLOOK

Mr. Brubaker presented Wilshire's performance analysis of the Employees' Retirement System as of March 31, 2005 and noted the total fund performance continued to be ranked in the top tier of Wilshire's Public Fund Universe. The ERS performance for the one year ended March 31 ranked at the 28th percentile or better than 72% of the public funds surveyed. The outperformance over the one-year time period was due to the strong returns achieved by our domestic equity managers, including: Numeric's Core and Small Cap portfolios, Wellington and Systematic. He noted the three year performance ranks at the 15th percentile or better than 85% of peers. The Board reviewed the performance results of the mutual funds offered in the Retirement Savings Plan and Deferred Compensation Plan.

INVESTMENT COMMITTEE REPORT

Mr. Barnard presented to the Board the report on the Investment Committee meeting.

Alternatives - 2005 Funding: Mr. Brubaker discussed Wilshire's analysis of the future funding projections required to achieve the 5% target allocation. Wilshire recommends a contribution to private equity of \$50 million annually through 2011. The Board previously approved a \$20 million commitment to Adams Street's 2005 fund. The Committee recommends a \$30 million commitment to a secondary manager in 2005. After discussion, the Board approved the following resolution:

0506-04 Resolved, That the Board approves a commitment of \$30 million in FY05 and FY06 for investment with a private equity secondary fund-of-funds manager.

Alternative Managers – Annual Review: Mr. Weiss presented the annual review of the ERS alternative managers noting the committed capital, amount called and market value for each fund

and the diversity of fund allocations by strategy, region, partnership and industry. Mr. Weiss noted the performance of the private equity managers has been helped by their allocation to secondaries which performed well.

Retirement Savings Plan - Structure Analysis: Mr. Brubaker reviewed Wilshire's analysis of the investment structure recommending the deletion of non-performing and overlapping funds and the addition of several funds in new asset classes. The Board discussed the asset allocation, expense ratio and performance of the Fidelity Freedom Funds compared to a passive index option, their respective peer group and to the BGI lifecycle funds offered in the Deferred Compensation Plan. The Board amended the recommendation requesting that the Puritan Fund be retained in the fund offerings. After discussion, the Board approved the following resolution:

0506-05 *Resolved, That the Board approves restructuring the investment funds offered in the Retirement Savings Plan to include the addition of new fund offerings and the deletion of non-performing and overlapping funds, as outlined in the presentation material except for the deletion of the Puritan Fund, effective October 1, 2005. The changes will be communicated to participants in June. Participants will be permitted to attend an additional investment counseling session to obtain information on how the changes will impact their retirement planning goals.*

Semi-Annual Risk Report: Ms. Herman discussed the results of the semi-annual risk report and quarterly reviews of the investment managers' portfolios for risk and compliance. The report noted that Capital Guardian has lost a significant amount of assets due to organizational and performance issues. The report also noted areas of non-compliance with Board established guidelines, including securities held by BlackRock due to downgrades. The Board approved the following resolution:

0506-06 *Resolved, That the Board permits BlackRock to continue to hold the downgraded securities of Qwest Capital Funding, CSC Holdings Inc., and MCI Inc.*

Derivatives- JP Morgan: Ms. Herman presented the new monthly derivative reporting requirements for ERS investment managers. Staff recommends amending JP Morgan's guidelines to restrict the use of derivatives to 25% of the total portfolio duration. The Board approved the following resolution:

0506-07 *Resolved, That the Board modify JP Morgan's guidelines to restrict the duration of the net derivatives positions to 25% of the total portfolio duration.*

Annual Brokerage Review – Calendar Year 2004: Ms. Herman presented a review of the 2004 brokerage fees paid by the System's domestic and international equity managers. The average commission rate for U.S. equities dropped 18% from 2003 to 2.34 cents per share ranking in the top quartile of the Abel Noser Median Universe. Global equity commission rates were 18.90 basis points in 2004 placing them in the third quartile.

The Board discussed items on the workplan recommending no changes.

There being no further business of the Board, the open meeting session was adjourned at 11:50 a.m.

Respectfully submitted,

Sandra P. Kaiser, Secretary